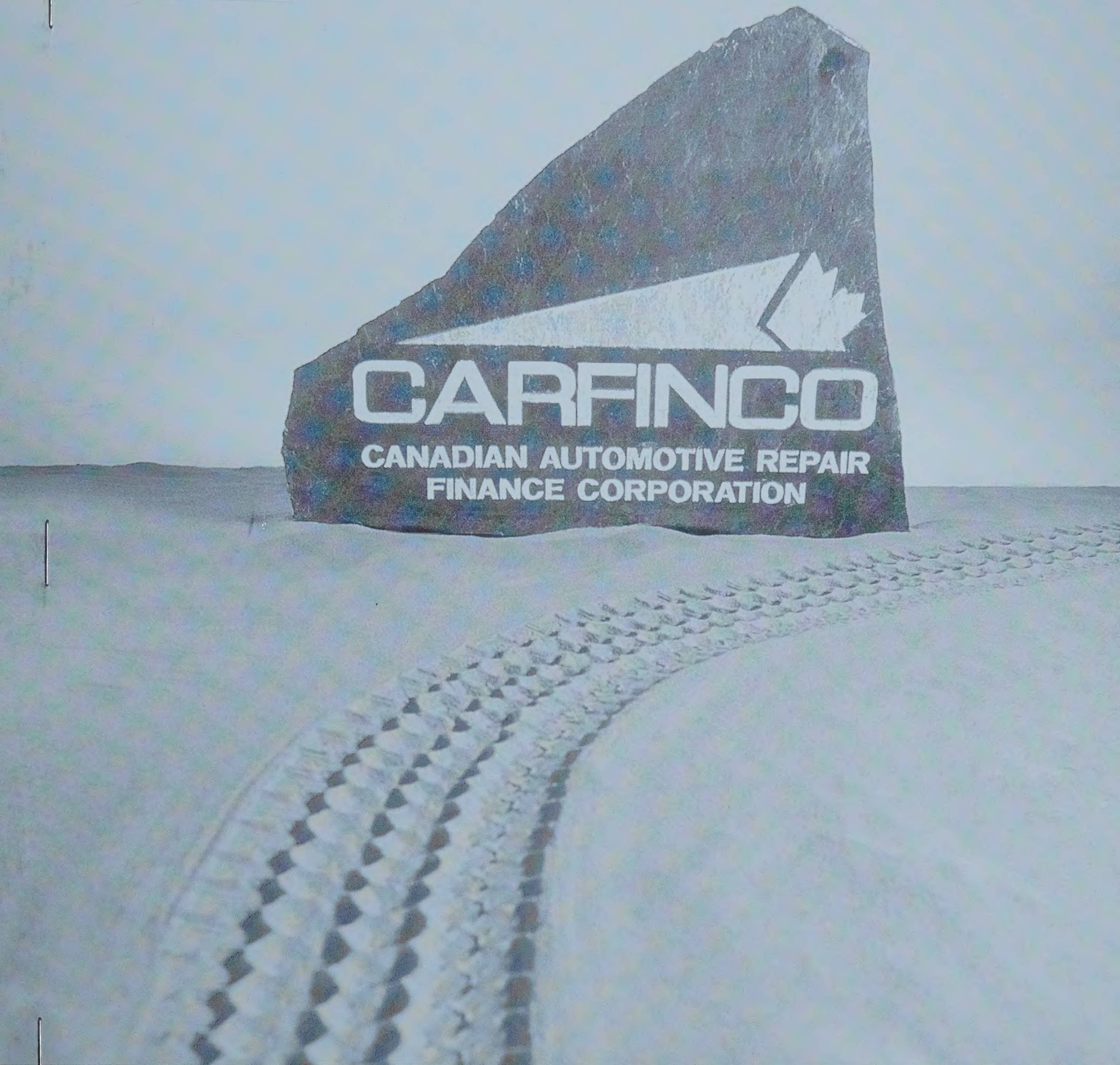
CANADIAN AUTOMOTIVE REPAIR FINANCE CORPORATION

CARFINCO INC.

Financial Statement 1999



1999 FINANCIAL STATEMENT TO OUR SHAREHOLDERS

Management's Discussion and Analysis

General

During the year, the Company continued to focus on the set up of new Repairers in Alberta, British Columbia and Ontario, as well as, servicing the existing network of repair facilities. Management is satisfied with the acceptance of the "Fix'Em Up Payment Plan" in the automotive repair industry, as evidenced by the 1,016 Repairers who became part of the network during fiscal 1999; an increase of 68% from 1,496 in fiscal 1998 to a total of 2,512 facilities.

During fiscal 1999, the Company continued to establish internal operations by focusing on improvements in the corporate divisions within the Company. These divisions include a marketing division dealing with the set up and servicing of repair facilities, a credit division dealing with new applications, a portfolio management division dealing with past due accounts and an accounting division.

The Company continues to focus on the Commercial Vehicle Repair Financing Program, which has had a positive contribution to the growth of the portfolio. Fiscal 1999 represents the first twelve month comparative reporting period for the Company.

The following discussion should be read in conjunction with the Company's consolidated financial statements.

Results of Operations

The Company recorded a growth of 64% in the Finance Receivables Portfolio during fiscal 1999. The portfolio grew from $3,055,233 at August 31, 1998 to $5,006,158 at August 31, 1999, an increase of $1,950,925.

During the fiscal period of September 1, 1998 to August 31, 1999, the Company reported total Revenues of $1,350,416, an increase of $747,712 (124%) from fiscal 1998 revenues of $602,704.

The total expenses increased by $386,521 (41%) from $949,360 in fiscal 1998 to $1,335,881 in fiscal 1999. Interest expense grew from $81,820 in fiscal 1998 to $244,373 in fiscal 1999, directly corresponding with the growth in the finance receivables portfolio. Likewise, the provision for credit losses increased proportionately from $118,575 in fiscal 1998 to $180,262 in fiscal 1999. Advertising and marketing decreased from $65,294 in fiscal 1998 to $44,469 in fiscal 1999. General and administrative expenses increased by $133,788 to $485,331. Salaries and regional manager fees increased from $322,996 in fiscal 1998 to $368,452 in fiscal 1999.

Liquidity and Capital Resources

The Company entered into a $7,500,000 demand credit facility with a non-bank lender. This facility provides flexibility in meeting cash requirements needed to continue funding automotive and commercial vehicle repairs. The Company's ability to grow depends upon its continued ability to obtain substantial long-term loan facilities and equity capital through access to the financial markets or otherwise. Factors which could affect the Company's access to the financial markets or the costs of such financing, include changes in interest rates, general economic conditions, the perception of the Company's business in the financial markets, results of operations, leverage and business prospects.

It is expected that direct competition will eventually emerge, however, CARFINCO's program strictly focuses on the Automotive Repair Industry and can therefore provide a greater degree of knowledgeable service to the individual consumer. The Company's ability to evaluate the needs of each Customer's automotive repair situation will remain a competitive advantage over other forms of consumer financing.

Delinquency rates have been in line with Management's projections, with a total of $149,377 being written off as at August 31, 1999 and $21,363 being recovered. The Company's portfolio management division will exhaust all avenues in the continued efforts to recover written off accounts. Management feels that the current allowance for credit losses is sufficient for the finance receivables portfolio. Management acknowledges the importance of monitoring and controlling the delinquent accounts as the finance receivables portfolio increases.

CARFINCO™
Carfinco Inc.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements, the notes thereto and other financial information enclosed have been prepared by, and are the responsibility of, the Management of CARFINCO Inc. These financial statements have been prepared in accordance with generally accepted accounting principles, using Management's best estimates and judgements when appropriate.

The Board of Directors is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of three Directors, meets with Management as well as the external auditors to satisfy itself that Management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the report of the auditors. The auditors have full and unrestricted access to the Audit Committee.

The financial statements have been audited by Grant Thornton, the independent auditors, in accordance with generally accepted auditing standards.

Tracy Graf

Tracy A. Graf
President and Chief Executive Officer

Troy S.F. Graf
Chief Financial Officer

CARFINCO INC.
100 Greystone IV, 4207 – 98 Street
Edmonton, Alberta, Canada T6E 5R7

CARFINCO™
Carfinco Inc.

Corporate Information

Directors

Tracy A. Graf
President and Chief Executive Officer
CARFINCO Inc.
Edmonton, Alberta

David Prussky
Director
Patica Corporation
Toronto, Ontario

Gordon J. Reykdal
President and Chief Executive Officer
RTO Enterprises Inc.
Edmonton, Alberta

Edward C. McClelland
President
Gambit Consultants Inc.
Burlington, Ontario

David Rosenkrantz
Director
Patica Corporation
Toronto, Ontario

Simon Serruya
General Manager Consumer Products
Yogen Fruz World-Wide Inc.
Toronto, Ontario

Officers

Tracy A. Graf
President and Chief Executive Officer

Troy S.F. Graf
Vice President and Chief Financial Officer

Paul M. Stein
Corporate Secretary

David Prussky
Treasurer

Bankers

Canadian Imperial Bank of Commerce
Omnicentre One
9636 – 51st Avenue
Edmonton, Alberta T6H 2W1

Auditors

Grant Thornton, Chartered Accountants
Scotia Place 1, Suite 2400
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Solicitors

Cassels Brock & Blackwell
Scotia Plaza, Suite 2100
40 King Street West
Toronto, Ontario M5H 3C2

Transfer Agent

Equity Transfer Services Inc.
Richmond Adelaide Centre
Suite 420, 120 Adelaide Street West
Toronto, Ontario M5H 4C3

Stock Exchange Listing

The Canadian Dealing Network
Trading Symbol: **CAAR**

Head Office

100 Greystone IV, 4207 – 98 Street
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Chartered Accountants
Canadian Member Firm of
Grant Thornton International

Grant Thornton

Carfinco Inc.
Consolidated Financial Statements
August 31, 1999

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Chartered Accountants
Canadian Member Firm of
Grant Thornton International

Grant Thornton

Auditors' Report

To the Shareholders of
Carfinco Inc.

We have audited the consolidated balance sheets of Carfinco Inc. as at August 31, 1999 and 1998 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Grant Thornton

Edmonton, Canada
October 13, 1999

Chartered Accountants

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Carfinco Inc.

Consolidated Statement of Earnings and Deficit

Year Ended August 31	1999	1998
Revenues		
Interest income	$ 990,197	$ 402,550
Administration fees	360,219	177,904
Investment income	-	22,250
	1,350,416	602,704
Expenses		
Interest	244,373	81,820
Provision for credit losses	180,262	118,575
Advertising and marketing	44,469	65,294
Amortization	12,994	9,132
General and administrative	485,331	351,543
Salaries and regional manager fees	368,452	322,996
	1,335,881	949,360
Net earnings (loss)	14,535	(346,656)
Deficit, beginning of year	(582,117)	(235,461)
Deficit, end of year	$ (567,582)	$ (582,117)
Earnings (loss) per share – basic	$ 0.001	$ (0.05)

See accompanying notes to the consolidated financial statements.

Carfinco Inc.
Consolidated Balance Sheet

August 31	1999	1998
Assets		
Current		
Finance receivables	$ 5,006,158	$ 3,055,233
Less allowance for credit losses	145,000	91,500
Finance receivables – net (Note 3)	4,861,158	2,963,733
Other assets	173,666	38,395
	5,034,824	3,002,128
Non-current		
Capital assets (Note 5)	47,275	39,933
Deferred costs	67,341	-
	114,616	39,933
	$ 5,149,440	$ 3,042,061
Liabilities		
Current		
Bank indebtedness (Note 6)	$ 2,653,032	$ 1,411,754
Payables and accruals	85,823	79,168
	2,738,855	1,490,922
Non-current		
Long-term debt (Note 7)	600,000	-
	3,338,855	1,490,922
Shareholders' Equity		
Share capital (Note 8)	2,378,167	2,133,256
Deficit	(567,582)	(582,117)
	1,810,585	1,551,139
	$ 5,149,440	$ 3,042,061

Commitments (Note 12)
Uncertainty (Note 13)

On behalf of the Board

_______________ Director

_______________ Director

See accompanying notes to the consolidated financial statements.

Carfinco Inc.
Consolidated Statement of Cash Flows

Year ended August 31	1999	1998
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings (loss)	$ 14,535	$ (346,656)
Accrued interest	(36,524)	(56,489)
Administration fees receivable	(139,252)	(107,605)
Amortization	12,994	9,132
Provision for credit losses	180,262	118,575
	32,015	(383,043)
Change in non-cash operating working capital (Note 11)	(195,957)	(11,412)
	(163,942)	(394,455)
Investing		
Funds advanced on finance receivables	(5,724,515)	(3,900,590)
Principal collections on finance receivables	3,703,894	1,353,630
Proceeds from sale of finance receivables	118,710	-
Purchase of capital assets	(20,336)	(32,763)
Disposal of capital assets	-	428
	(1,922,247)	(2,579,295)
Financing		
Proceeds from long-term debt	600,000	-
Issuance of share capital	270,353	1,432,075
Share issue costs	(25,442)	(38,108)
	844,911	1,393,967
Net increase in bank indebtedness	(1,241,278)	(1,579,783)
Bank indebtedness (cash)		
Beginning of year	1,411,754	(168,029)
End of year	$ 2,653,032	$ 1,411,754

See accompanying notes to the consolidated financial statements.

1. Operations

Carfinco Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on December 30, 1996. The Company owns 100% of Canadian Automotive Repair Finance Corporation, which is a company incorporated under the Business Corporations Act (Alberta). On May 7, 1997, the Company completed an Initial Public Offering and its shares were listed on the Canadian Dealing Network (symbol "CAAR").

The Company is in the business of providing consumer financing for automotive repairs.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Basis of consolidation

These financial statements include the accounts of the Company and its wholly owned subsidiary, Canadian Automotive Repair Finance Corporation.

Finance receivables

Finance receivables are recorded at their principal amounts, including accrued interest, less allowance for credit losses.

Interest income is recorded on the accrual basis. Recognition of interest income is suspended when, in management's view, a loss is likely to occur. Fees related to the origination of loans are recognized when the finance receivable is recorded. Charges related to the subsequent administration of the finance receivables are recognized upon collection of funds.

Allowance for credit losses

The management of the Company establishes and maintains an allowance for credit losses which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The allowance for credit losses consists of specific and general components, which are deducted from the finance receivable portfolio. The specific component includes those accounts, which, in management's view, are not considered recoverable. The general component includes a provision for credit losses, which is conservative in nature and includes an estimation of losses by reference to historical industry ratios of write-offs and to current recovery experience.

2. Summary of significant accounting policies (cont'd)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts. Bank borrowings are considered to be financing activities.

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets

Capital assets are recorded at cost. Capital assets are amortized over their estimated useful lives, using the following rates and methods:

Computer and office equipment	30%, declining balance
Furniture and fixtures	20%, declining balance
Leasehold improvements	Straight-line over the term of the related lease

Amortization is recorded at one-half of the above rates in the year of acquisition on all capital assets except leasehold improvements.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, finance receivables, bank indebtedness, payables and accruals, and long-term debt. Unless otherwise indicated, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

3. Finance receivables

	1999	1998
Principal of finance receivables	$ 4,913,145	$ 2,998,744
Accrued interest	93,013	56,489
Finance receivables	5,006,158	3,055,233
Less: allowance for credit losses (Note 4)	(145,000)	(91,500)
Net finance receivables	$ 4,861,158	$ 2,963,733

4. Allowance for credit losses

	1999	1998
Allowance, beginning of year	$ 91,500	$ 11,600
Provision for credit losses	181,514	118,575
Write-offs	(149,377)	(39,250)
Recoveries	21,363	575
Allowance, end of year	$ 145,000	$ 91,500

5. Capital assets

			1999	1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer and office equipment	$ 46,900	$ 18,076	$ 28,824	$ 26,704
Furniture and fixtures	20,185	6,762	13,423	13,229
Leasehold improvements	5,262	234	5,028	-
	$ 72,347	$ 25,072	$ 47,275	$ 39,933

Amortization provided for in the current period totalled $12,994.

6. Bank indebtedness

	1999	1998
Bank credit facility	$ -	$ 1,411,754
Non-bank credit facility	2,650,000	-
Bank indebtedness	3,032	-
	$ 2,653,032	$ 1,411,754

Bank credit facility

The bank credit facility was a demand loan which was the lesser at any time of: a) $2,500,000 and b) the total of 65% of the value of acceptable outstanding finance receivables.

The bank held a general security agreement covering all property held by the Company.

Non-bank credit facility

The non-bank credit facility is a demand loan which is the lesser at any time of: a) $7,500,000 and b) the total of 70% of the value of acceptable outstanding finance receivables. The credit facility bears interest at prime plus 3.5% on borrowings between $1,000,000 and $3,000,000 and at prime plus 3.0% on borrowings between $3,000,000 and $7,500,000.

6. Bank indebtedness (cont'd)

The non-bank holds a general security agreement covering all property held by the Company and personal guarantees in the amount of $1,000,000.

The terms of the credit facility provide for certain covenants, all of which the Company was in compliance with at year-end.

7. Long-term debt

Convertible debenture

On June 25, 1999, the Company issued a convertible debenture for proceeds of $600,000. The debenture is unsecured, matures on June 25, 2002 and bears interest at 12% per annum. The first years interest was paid in advance and the remaining interest payments are payable quarterly in arrears. The debenture is convertible into Common Shares of the Company at a price of $0.24 at the option of the holder.

8. Share capital

Authorized:
Unlimited number of Class A common shares

Issued:	# of shares	1999	# of shares	1998
Balance, beginning of year	9,831,000	$ 2,133,256	5,100,000	$ 739,389
Issued on conversion of warrants	-	-	1,931,000	676,075
Issued for cash in private placement	-	-	948,000	255,960
Issued for cash in rights offering	2,457,750	270,353	1,852,000	500,040
	12,288,750	2,403,609	9,831,000	2,171,364
Share issue costs	-	(25,442)	-	(38,108)
Balance, end of year	12,288,750	$ 2,378,167	9,831,000	$ 2,133,256

Warrants

On January 14, 1999, in connection with the non-bank credit facility, as disclosed in Note 6, the Company issued 1,500,000 warrants to signatories (two of the directors of Carfinco Inc.) of limited recourse personal guarantees of $1,000,000. The warrants are exercisable into 1 common share per warrant at a price of $0.18, with an expiry date of January 14, 2004.

8. Share capital (cont'd)

Stock options

The Company has entered into incentive stock options with directors, officers and employees. As at August 31, 1999, the Company has granted the following options to purchase common shares:

Number of shares	Exercise Price $	Expiry Date
400,000	0.35	April 7, 2002
200,000 (1)	0.40	November 20, 2000
125,000 (2)	0.35	April 7, 2002
50,000 (3)	0.36	June 23, 2001
125,000	0.24	April 7, 2002
60,000 (4)	0.24	June 23, 2001
$ 960,000		

(1) Vested over three year period commencing November 20, 1997
(2) Pursuant to a Promoter's Option Agreement dated April 7, 1997
(3) Vested over a three year period commencing June 23, 1998
(4) Vested over a two year period commencing June 23, 1999. One-third of the options vests immediately and the remaining two-thirds vest on the subsequent two anniversary dates.

Escrowed shares

Pursuant to a voluntary Escrow Agreement dated April 16, 1997, an aggregate of 709,886 common shares of the Company have been escrowed for three years. Under the terms of the April 16, 1997 Escrow Agreement, 10% of the escrowed shares were released on January 17, 1998 and 30% of the escrowed shares shall be released on each of the first, second and third anniversaries of the initial release. As at August 31, 1999, 425,933 common shares remain in escrow under the voluntary Escrow Agreement of April 16, 1997.

9. Related party transactions

The Company did not renew the Alliance and Service Agreement dated April 7, 1997 with RTO Enterprises Inc., whereby RTO will supply support services for a period of six months at $2,675 per month, which represents fair value for services provided. The last renewal period was from November 1, 1997 to April 30, 1998. During fiscal 1998, $5,350 was paid to RTO, which represents two months at $2,675 for the renewal term. During the year, no payments were made to RTO and at August 31,1999, there was no amount payable to RTO. A director of RTO Enterprises Inc. is a shareholder and a director of Carfinco Inc.

9. Related party transactions (cont'd)

The Company entered into a Consulting Agreement dated April 7, 1997 with Patica Corporation, whereby Patica will provide on-going financial consulting advice for a three year period, commencing May 1, 1997, for an initial fee of $1,000 per month increasing to $5,000 per month when the Company completes additional equity financing of at least $1,000,000. The fee represents fair value for services provided. During the year, no payments were made to Patica and at August 31, 1999, there was no amount payable to Patica. Patica Corporation is controlled by individuals who are directors and/or shareholders of Carfinco Inc.

The convertible debenture is held by an individual who is a director of the Company.

10. Income taxes

To August 31, 1999, the company incurred tax losses of $377,583 which may be applied against future taxable income within the allowable provisions prescribed by the Income Tax Act.

If not utilized these losses will expire as follows:

2004	$ 255,447
2005	86,949
2006	35,187
	$ 377,583

The possible tax benefit of these losses has not been reflected in the financial statements.

11. Change in non-cash operating working capital

	1999	1998
Other assets	$ (135,271)	$ (35,789)
Deferred costs	(67,341)	-
Payables and accruals	6,655	24,377
	$ (195,957)	$ (11,412)

12. Commitments

The Company is committed to a long term operating lease for building space. The minimum annual lease payments required are as follows:

Year ending August 31,		
2000	$	27,300
2001		27,300
2002		27,300
2003		13,775

13. Uncertainty due to the Year 2000 Issues

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Financial instruments

As disclosed in the summary of significant accounting policies, the Company holds various forms of financial instruments. The nature of these instruments and the company's operations expose the Company to interest rate risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

a) Interest rate risk

Bank indebtedness bears interest at a floating rate. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

Finance receivables bear interest at a fixed rate. The fixed rate finance receivable is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates.

14. Financial instruments (cont'd)

b) Fair market value

The carrying values of finance receivables, bank indebtedness, payables and accruals, and long-term debt meeting the definition of a financial instrument approximate their fair value.

c) Credit risk

The Company's finance receivables are from transactions within the consumer finance industry, and as such, the Company is exposed to all the risks of that industry. The Company manages its risks by taking security in the form of a security interest/lien against a motor vehicle or other tangible asset.